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GATT Meetings Fail To Resolve Impasse

A narrow view might suggest that Tokyo would be pleased with the lack of an outcome in the latest Uruguay Round talks. Meetings in Brussels, which had been intended as a wrap-up session involving high-level trade negotiators from 107 countries, ended December 7 after four days. There were no agreements in any of the 15 negotiating areas and, in particular, no decision to liberalize world trade in agriculture. As of late December further talks appeare likely but not guaranteed; Arthur Dunkel, director general of the General Agreement on Tariffs and Trade, has called for an ambassador-level meeting January 15 to get the multilateral trade negotiations process moving again. With the possibility that subsequent Uruguay Round meetings, if any, could prove just as inconclusive as those in Brussels, Tokyo appears increasingly likely to prevail in maintaining its restrictions on rice imports after more than four years of negotiations. Yet commentators from the Far East to Europe seem to feel that, while perhaps winning a battle, Japan is on the verge of losing the war. They have several arguments.

To plug the weak spots of the 1988 accord the U.S. team, headed by Under Secretary of Commerce for International Trade Michael Farren, proposed several changes: expansion of the agreement to cover all public works projects funded by the central government; inclusion of subcontracts whenever a primary contract is covered by the agreement; implementation of a dispute-handling mechanism that could reopen bids or thoroughly investigate disputed contracts; elimination of rules that encourage foreign firms to form joint ventures with domestic companies to qualify to bid; provision of more information on new projects to foreign firms on a timelier basis; and elucidation of all decisions made under the designated bidder system. The American side let it be known that, short of achieving universal access, it would settle for a broad description of projects that the pact would cover (or at least a longer list of specific projects). Administration officials hinted strongly that a positive assessment of the 1988 pact hinged on reopening the people-mover bid.

Tokyo rejected these proposals, arguing that the 1988 agreement had a limited dual intent: to help foreign firms gain experience with Japan's designated bidder system and to allow them to establish a track record and reputation in Japan. The agreement is a transitory measure, according to Japanese officials; since it will become unnecessary in a few years, they say, no expansion is needed. The Japanese delegation was amenable to improving the transparency of the system, apparently grateful that the American side had dropped its absolute opposition to Japan's designated bidder approach.

KIAC's management muddied the outlook for the talks with two actions. First, KIAC rebuffed American complaints about the people-mover project by signing a Y4.7 billion ($34.8 million at Y135=$1.00) contract December 7 with the Japanese consortium that underbid the American-West German team of AEG Westinghouse Transportation Systems Inc. Also, as the two days of bilateral talks got under way December 12, KIAC announced that an American-Japanese-West German team had won the competition to build the airport's baggage-handling system. This contract was awarded under the exact same bidding procedures that the United States claimed were inappropriate for the people-mover system. Austin Co. of Cleveland Ohio, Beumer Maschinenfabrik KG and Kawasaki Heavy Industries, Ltd. spent four years and more than $1 million preparing their joint bid for the estimated $50 million contract.

The Bush administration has set a January 15, 1991 deadline for evaluating the 1988 accord. Trade officials point out that under the 1988 trade act the U.S. Trade Representative must decide on a course of action by May 1, 1991. Whether the two sides can bridge their differences in so short a time is unclear.

Jon Choy

New Five-Year Defense Plan To Feature Smaller Spending Increases

Reflecting expectations of an improved security environment in the post-Cold War era, Japan's new five-year defense plan probably will feature smaller spending increases than the current version, Japanese government sources have indicated. At JEI press time the National Security Council, a defense-centered panel composed of Prime Minister Toshiki Kaifu and selected cabinet officials, was finalizing the FY 1991-FY 1995 Medium-Term Defense Plan, which is expected

to involve expenditures of about Y23 trillion ($170.4 billion at Y135=$1.00). According to news sources, the new plan will limit annual increases in spending to just under 3 percent in the five years starting April 1, 1991. The plan will be reviewed after three years to make adjustments in spending, equipment procurement and personnel in line with changes in the global security environment.

Japan's defense budget has grown steadily during the past decade, increasing at an average annual rate of 6.4 percent (see Table). Some analysts estimate that this year Japan surpassed the United Kingdom to rank third in military expenditures behind the United States and the Soviet Union. Despite pressure from Washington for Japan and other allies to assume more of the mutual defense burden, the days of high-growth military budgets may be over, judging by recent comments from Japanese government officials. "There is a general sense that there is no longer a need for th[at] kind of increase," a Japanese diplomat recently was quoted as saying. Mr. Kaifu's December 12 comments before the Diet that the new defense plan will follow the "spirit" of the 1976 National Defense Program Outline, an overarching plan that stipulates a moderate defense capability in peacetime, suggests that the government favors braking the recent growth of defense spending.

Japan's Defense Budget, FY 1980-FY 1990

(in billions of yen)

Fiscal Year	Initial Budget	Percent Change	Ratio to GNP
1980	Y2,230.2	6.5%	0.90%
1981	2,400.0	7.6	0.91
1982	2,586.1	7.8	0.93
1983	2,754.2	6.5	0.98
1984	2,934.7	6.6	0.99
1985	3,137.2	6.9	0.99
1986	3,343.6	6.6	0.99
1987	3,517.4	5.2	1.00
1988	3,700.3	5.2	1.013
1989	3,919.8	5.9	1.006
1990	4,159.0	6.1	0.99

Source: Japan Defense Agency

This news no doubt will disappoint Pentagon officials who, over the years, have urged Tokyo to at least maintain the 6 percent-plus spending increases that help Japan satisfy certain self-defense roles and missions. The reaction on Capitol Hill probably will be more vitriolic, depending on how legislators interpret Tokyo's future burdensharing plans. Before adjourning in October Congress passed a nonbinding resolution that called on Japan to assume 100 percent of the yen costs associated with stationing U.S. troops there. Tokyo's failure to do so, the resolution stated, would precipitate a "rapid" withdrawal of American forces from Japan. The Japanese government's decision to rein in future defense expenditures may be interpreted by many American legislators as evidence of Japan's unwillingness to assume the attendant political and security-related responsibilities of a global power.

In this regard, the timing of discussions on Japan's new defense plan is especially unfortunate. Last month Mr. Kaifu was forced to withdraw from the Diet a bill that would have authorized the dispatch overseas of Self-Defense Forces to assist peacekeeping activities under the United Nations' aegis (see JEI Report No. 44B, November 16, 1990). Senior Liberal Democratic Party officials, in consultation with the relevant bureaucracies, crafted the plan in response to pressure from Washington and other allies that Japan provide more than money to support multilateral efforts aimed at resolving the crisis in the Persian Gulf. The prime minister, however, was unable to win enough backing for the plan from members of his own party and had little or no support from the opposition parties. The main argument against the plan was that it exceeded Japan's 45-year-old government policy of not dispatching overseas any armed forces or participating in collective defense arrangements. Many in Congress have charged that Tokyo simply is hiding behind its "peace constitution," on which the long-standing government policy is based, rather than putting itself at risk with the majority of its allies in protesting Saddam Hussein's invasion of Kuwait.

Apparently anticipating this firestorm, Japanese officials told U.S. defense dignitaries visiting Tokyo December 10 that, despite plans to hold down spending hikes, Tokyo gradually will increase its share of the financial burden for supporting the approximately 50,000 U.S. troops stationed at over 100 military facilities in the Japanese archipelago. Beginning in FY 1991, the government proposed, Japan will cover 50 percent of the roughly $6 billion annual cost of maintaining U.S. forces in Japan, a 10 percentage point increase. During the course of the next five years this will amount to an additional Y90 billion ($666.7 million) for the salaries of Japanese employees at U.S. bases and specified maintenance costs. (The FY 1990 budget allocated Y320 billion or $2.4 billion for host-nation support.)

The two sides reportedly did not reach a final agreement at the early December meetings; Washington wants Tokyo to cover more than charges for electricity, gas and water, which Japan had agreed to add to its costs. U.S. defense officials evidently stressed that unless Tokyo substantially boosts host-nation support in the coming years -- that is to say, significantly more than the 10-point share increase now envisioned -- congressional sentiments on burdensharing could harden; this was viewed by some analysts as a hint that the new Congress might try to pass a binding measure requiring massive troop pullouts from Japan. Washington also asked that Tokyo expand its host-nation support before next April due to the squeeze placed on the Pentagon's budget by the deployment of American troops to the Persian Gulf. Japanese negotiators were said to have agreed in principle to advanced implementation, adding that the green light still has to come from the Ministry of Finance.

In terms of equipment procurement the scaled-back FY 1991-FY 1995 defense plan may mean that Japan Defense Agency officials will be unable to get all that they had hoped for. During preliminary discussions of the plan this past summer JDA had included on its "wish list" a number of items that, for the most part, would be purchased off-the-shelf from the United States. These included: AWACS (airborne warning and control system) aircraft, the multiple-launch rocket system, tanker-refueling aircraft and Aegis systems. The defense agency also was looking to upgrade living and working conditions for SDF personnel and to establish a new 2,000-person headquarters for gathering and analyzing intelligence data (see JEI Report No. 35A, September 14, 1990).

During the early December meetings with their U.S. counterparts, however, Japanese defense officials said that Japan would strive to buy four AWACS planes during the plan period. (At one point there reportedly was talk of Tokyo purchasing 12 of these sophisticated early warning aircraft.) The Pentagon has encouraged the AWACS purchases and the acquisitions of other sophisticated equipment so Japan can better realize its goal of defending the area 1,000 nautical miles east and south of the home islands. But since these planes cost approximately Y20 billion ($184.2 million) each, Tokyo may have to slow down its acquisition of other frontline equipment, such as tanks, destroyers and fighter aircraft, particularly when faced with smaller defense spending hikes, Japanese officials have indicated. One item on the "wish list" that probably will be dropped is the tanker-refueling aircraft. Purchases of the MLRS and Aegis at this stage are still part of the plan.

Personnel also may be cut due to budgetary constraints as well as a reassessment of Japan's comprehensive defense program. The National Security Council at JEI press time also was expected to indicate whether the 1976 National Defense Program Outline should be reassessed to bring it in line with post-Cold War developments. The current outline was drawn up in a bipolar context. Japanese defense planners may find that the self-defense mission pursued under the deterrence-oriented U.S.-Japan Mutual Security Treaty is neither appropriate nor effective in responding to a crisis that does not involve the threat of a Soviet attack. The problems Tokyo encountered in considering its response to the Persian Gulf crisis would appear to point to some inadequacies regarding the current defense framework.

If the National Security Council does agree to an evaluation, defense planners would undertake a comprehensive review, beginning next April, of the Ground, Maritime and Air Self-Defense Forces, assessing their manpower strengths and their unit formation. An inventory of warships, fighter planes and other major equipment presumably would be done, as well, to discern where qualitative improvements or replacements are needed.

Barbara Wanner

Notes

Supplemental Budget - A Y2.3 trillion ($17 billion at Y135=$1.00) additional spending package for FY 1990 survived the Diet's legislative process and became effective December 17. The lower house of the Diet, which is controlled by the ruling Liberal Democratic Party, approved the measure December 13. The House of Councillors, which is controlled by the opposition parties, considered and then rejected the bill December 17. After delegations from the two houses were unable to negotiate a compromise, the lower house invoked its constitutional primacy on spending measures, making the bill law.

The supplemental budget, which is small compared to the extra spending authorized in FY 1989, mainly contains money for disaster relief and government employee salary hikes. Of particular interest to Washington, however, is about Y130 billion ($963 million) in financial support for the U.S.-led multinational peacekeeping force in the Persian Gulf (see JEI Report No. 46B, December 7, 1990). This special appropriation explains why action on the supplemental budget was completed several months ahead of the normal schedule. The quick action

NOTE

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